

24 October 1975

MEMORANDUM FOR THE RECORD

SUBJECT: Meeting with Mr. Charles W. Maddox re HSC Inquiry

1. A meeting was held at 3:30 p.m., 20 October 1975, in Room 5-E-62, to brief Mr. Charles W. Maddox on the operations of Government Employees Health Association, Inc. (GEHA); Public Service Aid Society (PSAS); Educational Aid Fund (EAF); and Employees Activity Association, Inc. (EAA). Present for the meeting were Mr. F. W. M. Janney, Director of Personnel; [REDACTED], Deputy Director of Personnel; and [REDACTED], Deputy Chief of Benefits and Services Division.

2. GEHA

[REDACTED] began the meeting with an explanation of the purpose of GEHA's existence. He indicated that GEHA was an employee association initially organized and incorporated in 1947 for the primary purpose of providing group term health insurance for its members, all of whom are Agency employees. (The Federal Government provided no health insurance coverage for its employees until July 1960.) [REDACTED] explained that from this beginning, GEHA expanded its services to its members so that it today provides a variety of insurance plans including life, health, accidental death and dismemberment, travel, and income replacement insurance. Mr. Maddox asked who underwrites these plans and was told that they are underwritten by Mutual and United of Omaha.

The manner in which GEHA's various reserves (trust liabilities) were accumulated was explained; i.e., through refund of premiums from the underwriter of the plans in those years when claims experience was good, plus invest income on these refunds. Discussion focused primarily on the United Benefit Life Insurance Company (UBLIC) plan because it has a reserve far in excess of the total of all other reserves held by GEHA. The reason for this was also explained. Figures were presented to show that until 1964, UBLIC

refunds of premiums were passed on to individual participants of the plan. Thereafter, the GEHA Board of Directors elected to use this money for improving the benefits of the UBLIC plan rather than make annual cash refunds. Increased life insurance for the employee and free life insurance for his dependents were the first improvements made. Thereafter, in May 1966, a free life insurance was made available to retirees who had participated in the UBLIC plan for at least 10 years prior to their retirement. Details of this retiree life insurance, including computation and funding, were explained.

This led to a discussion of GEHA's investment portfolio, the majority (\$2.1 million) of which is attributable to the funding of the UBLIC retiree insurance. It was disclosed that management of the portfolio is by a committee of three members who are chosen by the GEHA Board of Directors and responsible to them. In response to a question regarding their expertise in financial management, [REDACTED] stated that since the Directors are elected by the GEHA membership, there is no assurance that any of them would have any special investment experience; however, most of the time there is usually at least one Board member who is knowledgeable through experience with his own personal investments. It was pointed out that GEHA investments had been in Government securities in the early years, in insured savings and loan accounts in the early and mid-1960's, and thereafter in a combination of commercial bonds, FNMA's, and a limited holding of common stocks. Charts of current holdings and past sales were shown to Mr. Maddox. He indicated that GEHA's investment record was not particularly outstanding and remarked that we might be better off following VIP's practice. [REDACTED] indicated that this was a possibility since the thinking of the current GEHA Board and Investment Committee was to sell its holdings when the market is favorable and then reinvest in safe securities that provide a reasonable return and require less frequent attention.

Thereafter, there followed a brief discussion of GEHA's other insurance programs. It was pointed out that GEHA's Association Benefit Plan (ABP) is a participant of the Federal Employees Health Benefits Program and as such is subject to the law and regulations of that program as implemented by the U. S. Civil Service Commission. Consequently, there is another reserve, attributable to the ABP, but it is held, invested and controlled by the CSC.

### 3. PSAS and EAF

Having completed discussion of GEHA, [REDACTED] described the origin, purpose and methods of operation of PSAS and EAF. This was somewhat simplified by use of a copy of the pamphlet that accompanies this year's Combined Federal Campaign materials. Mr. Maddox requested that he be permitted to keep a copy of this unclassified pamphlet and it was given to him. (See copy attached.) [REDACTED] indicated that the shares of stock held in the EAF investment were donations and that there is no intention to engage in this type of investment. Recent financial statements of both PSAS and EAF were shown to Mr. Maddox. He asked if directors of these activities were also on any other investment committees. To the knowledge of those present, this was not the case, although Mr. Janney and others served as Directors on other programs. Mr. Maddox also asked for examples of circumstances under which an employee qualified for a PSAS loan and how it was eventually determined to write off certain loans of the program as losses.

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### 4. EAA

The final activity discussed with Mr. Maddox was the EAA. Having audited similar activities in other Government agencies, the EAA operation of clubs and hobby groups, ticket sales, athletic programs, and a store were not new to him. He was shown a copy of the complete EAA financial report for calendar year 1974. Although not a concern of his current review, Mr. Maddox volunteered that the GAO has a particular interest in seeing that the Government is reimbursed for the floor space and utilities used by such sales activities in Government buildings and that we should review our policy on this subject and somewhere record it.

5. The meeting was concluded with Mr. Maddox stating that he saw no particular problem with GEHA, PSAS, EAF, or EAA, all of which he considered normal operations. He did take notes, and particularly recorded the dollar levels and specific breakouts of the UBLIC reserves and the PSAS, EAF and EAA accounts. When we mentioned the Credit Union, he indicated he was not interested since Credit Unions are controlled by other laws.

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[REDACTED]

Deputy Chief

Benefits and Services Division

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